

NO POSTEST RECEIVED  
Relates to District

Date 01-29-92

Summary

JUN 21 1991

EIN: [REDACTED]  
KEY DISTRICT: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(c)(4) of the Internal Revenue Code (the Code).

The information submitted indicates that you were incorporated on [REDACTED], under the laws of [REDACTED], for the purposes of providing sewage treatment services to your members. You operate a sewage treatment plant in the Town of [REDACTED], [REDACTED].

Your Bylaws at Article [REDACTED], Section [REDACTED] provide that your membership is limited to the present and future owners of real properties served by you as of [REDACTED]. Membership is only transferable to those who purchase the real estate serviced by you. Your members contribute the necessary capital and funds to operate you. No capital contributions have been returned to your members because you anticipate additional work. You plan to return to your members unused portions of their contributions plus interest. If a member fails to pay, services are discontinued.

You lease your present system from [REDACTED] of your members. These individuals do not receive monetary compensation. They are compensated by receiving additional services required by their ownership of businesses and numerous houses. The present system is temporary. A proposed system financed by the county will be completed at the end of [REDACTED]. Once this system is in place, the existing one will be sold and you will be liquidated. Your assets will be distributed to your members.

Section 501(c)(4) of the Code provides for the exemption from federal income taxation of civic leagues or other organization not formed or operated for profit, and operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(1) of the Income Tax Regulations provides that a civic league or organization may be exempt as an organization described in section 501(c)(4) if it: (i) is not organized or operated for profit; and (ii) it is operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2) of the regulations provides that an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterment and social improvements.

Rev. Rul. 66-148, 1966-1 C.B. 143, holds that a nonprofit organization formed for the purposes of establishing and maintaining a system for the storage and distribution of water to raise the underground water levels of a community is exempt under section 501(c)(4) as the organization's activities benefit all of the residents.

Rev. Rul. 62-167, 1962-2 C.B. 142, holds that a community television antenna organization is exempt under section 501(c)(4) where it transmits television signals by a reflector-type apparatus so that the signals are available to any television receiver in the community.

Rev. Rul. 54-394, 1954-2 C.B. 131, holds that a community television antenna organization whose only activity is to provide television reception for its members is not exempt as a civic league as its method of operation is such that only the members receive the television signal by closed circuit.

Although you provide essential services to your members, you do not operate for the benefit of the community as a whole. The concept of social welfare suggests benefits affecting the whole community of people rather than a private group of citizens. By limiting your membership to owners of real estate as of a certain date and allowing only for their successors to enjoy your services, you fail to operate for the benefit of the entire community. In this respect, your activities resemble those described in Rev. Rul. 54-394, 1954-2 C.B. 131 and contrast those outlined in Rev. Rul. 62-127, 1962-2 C.B. 142. The distinction between the two rulings is based on the nature of the benefits flowing from the two organizations: the former limits its benefits to its members; the latter one makes them available to all. Likewise, you do not resemble the organization described in Rev. Rul. 66-148, 1966-1 C.B. 143. As further evidence that you operate for the benefit of your members, we take notice of the fact that you return the unused portion of members' contributions and assessments.

████████████████████

Accordingly, we conclude that you do not qualify for recognition of exemption from federal income tax under section 501(c)(4) of the Code. Therefore, you are required to file federal income tax returns on Form 1120.

You have the right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement must be submitted within 30 days of this letter and must be signed by one of your officers. You also have a right to a conference in this office after your statement is submitted. If you want a conference, you must request it when you file your protest statement. If you are to be represented by someone who is not one of your officers, he/she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key District Director. Thereafter, if you have any questions about your federal income tax status, including questions concerning reporting requirements, please contact your key District Director.

When submitting additional letters with respect to this case to the Internal Revenue Service, you will expedite their receipt by placing the following symbols on the envelope: ██████████. These symbols do not refer to your case but rather to its location.

Sincerely,

(Signed) ██████████

████████████████████  
Chief, Exempt Organizations  
Rulings Branch 2

bcc: ██████████  
Attn: EO Group